

Rural Development
Statement of Judith Canales, Administrator, Rural Business-Cooperative Service
United States Department of Agriculture
Before the House Committee on Agriculture, Subcommittee on Agriculture, Rural
Development, Research, Biotechnology, and Foreign Agriculture

Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee, thank you for the opportunity to provide a review and highlight the accomplishments of Rural Development's (RD) Rural Business-Cooperative Service (RBS) programs authorized through Title VI of the 2008 Farm Bill. We are still in challenging economic times but the programs and services of RBS, in partnership with other public and private sector funding, are improving the economic climate of rural areas. I appreciate the opportunity to discuss the successes of the business programs today.

Overview

The mission of RBS programs is to create economic opportunities for rural Americans by supporting the creation and growth of viable businesses, including cooperatives, that can compete and prosper in the global marketplace.

We meet these goals by investing financial resources and providing technical assistance to businesses and cooperatives located in rural communities, and establishing strategic alliances and partnerships that leverage public, private, and cooperative resources to create jobs and stimulate rural economic activity.

RBS currently operates five programs authorized under the Consolidated Farm and Rural Development Act (CONACT) or the Agricultural Risk Protection Act of 2000 (ARPA) which were either added or amended by Title VI of the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill). These programs include: the new Rural Microentrepreneur Assistance Program (RMAP), Rural Business Opportunity Grants (RBOG), the Value-Added Producer Grant (VAPG) Program, the Rural Cooperative Development Grant (RCDG) Program, and the Small Socially-Disadvantaged Producer Grant (SSDPG) Program. These programs are designed to assist people in rural communities and increase economic opportunities by improving community infrastructure, environmental health, and the sustainability of agricultural production.

RBS also implements numerous other programs which provide job training and business development opportunities for rural residents, including cooperative business development, community economic development and strategic community planning and faith-based and self-help initiatives. While these programs were not amended by the 2008 Farm Bill they will be included in this testimony to provide the Committee a complete picture of the scope of RBS investment in the economic opportunities in rural America.

The RBS mission is unique in the Federal government. There is no other Federal agency that focuses only on promoting rural communities and businesses. Our field offices reach out to rural America, including the poorest, most rural counties in America, providing Federal support to businesses that find it impossible to receive financial aid from any other source.

Administration Priorities

Secretary Vilsack has directed RBS to expand our reach in rural communities. USDA will continue to engage public and private partners to revitalize rural communities by expanding economic opportunities and creating jobs for rural residents. Administration priorities include: capital markets, local and regional food systems, and regional innovation.

Capital Markets

To increase economic prosperity in rural communities, capital is needed to spur business expansion and promote new businesses. RBS administers several loan and grant programs that can be used to attract investment capital, including loan guarantee programs such as Business and Industry loans.

Our employees are also key tools in creating capital markets, providing the skills and expertise to review business plans, identify tax incentives, and put together viable loan and grant combinations that can be used to spur capital investment in rural areas.

Local and Regional Food Systems

RBS actively promotes local- and regionally-produced agricultural food products through existing authorities and programs. We have worked to elevate the visibility of local foods, identifying and utilizing 2008 Farm Bill authority that can be used to support this important initiative through local and regional food projects, such as the 5 percent reserve in the Business and Industry Guaranteed Loan program for projects that support local and regional food systems. We have provided approximately \$200 million of support for local and regional food projects in 2010.

Regional Innovation

The key to creating economic growth for many communities is to encourage better collaboration on a regional scale. RBS looks for opportunities to assist rural communities in breaking down the barriers in accessing multi-jurisdictional opportunities and to cut across the bureaucratic silos that prevent investment in good ideas. This approach increases the prosperity of rural communities by supporting locally-led, regional economic strategies. The focus creates strong local and regional economies in emerging opportunities such as food systems, renewable energy, broadband-based economies, rural recreation, and the creation and preservation of wealth in rural America.

Business Programs

Business development and job creation are at the foundation of our agency mission. This foundation, along with the targeted programmatic approach of the Administration's Priorities, makes RBS programs an essential tool for rural America.

In 2010, we invested about \$3 billion to ensure America's rural businesses maintain a competitive edge in today's global market place. The vast majority of this funding was provided through guaranteed loans. These guarantees leverage funding provided by the commercial lending community along with other private sector funding.

The remaining text discusses our RBS programs and how they impact rural America.

Guaranteed Business and Industry Loans (B&I)

The B&I program, authorized under section 310B of the CONACT, is the largest of the RBS programs and provides protection against loan losses so that lenders are willing to extend credit to establish, expand, or modernize rural businesses.

Capital is the lifeline of rural businesses to maintain and create rural jobs. The President's Fiscal Year (FY) 2012 Budget requests \$53 million in budget authority to support \$823 million in loan guarantees for B&I. We will fund \$1.387 billion in guarantees this fiscal year; we have already obligated \$995.36 million through 373 loans. In FY2010, we obligated 1,030 loans totaling over \$2.9 billion.

This program has had proven results and supports a holistic economic approach. For example, in 2010 the Brattleboro Food Co-op received a \$4.2 million guarantee from the RBS B&I program. This cooperative has grown from a warehouse storefront in 1979 with a volunteer staff into a \$17 million operation with 100 employees. The cooperative now supplies local and organic food choices to its 5,000 members located throughout Southeastern Vermont.

To support its long term viability and expand choices for its growing consumer membership, the cooperative embarked upon an expansion plan. The cost of doubling its space in its downtown location would cost \$8.8 million. The cooperative raised more than \$1 million from its members and leveraged those funds with a \$4.2 million B&I guaranteed loan from Peoples United Bank. The remaining financing came from nonprofit, private, and borrower equity. As a result, the cooperative is expanding from 17,200 square foot building into an energy efficient 33,847 square foot building serving as an anchor business in downtown Brattleboro.

The expanded store will add market capacity for the 146 local farmers and 46 food producers that it currently supports. Additionally, the project will develop 24 units of affordable housing that will be owned and operated by the Windham Housing Trust and Housing Vermont. The cutting edge, environmentally-friendly building will even recycle the grocery store's waste heat from its refrigeration and reuse it to heat water for the entire facility.

Rural Business Opportunity Grant (RBOG)

Authorized under the CONACT, the 2008 Farm Bill extended the RBOG program through FY 2012. The RBOG program promotes sustainable economic development in rural communities with exceptional needs through provision of training and technical assistance for business development, entrepreneurs, and economic development officials and to assist with economic development planning. In FY 2010, the RBOG program provided funding to seven regions to develop plans focused on supporting local food systems, renewable energy, and the utilization of natural resources to promote economic development through regional planning among Federal,

State, local, and private entities. By creating a regional focus and increasing collaboration with other Federal agencies, and other partners, our resources will have a larger impact, enabling greater wealth creation, quality of life improvements, and sustainability.

Leveraging is an essential tool of the RBOG program. For example, Ecotrust in Oregon, was awarded a \$249,340 grant in FY 2010. Using the RBOG funds along with over \$1 million in leveraged funds, Ecotrust will be able to increase recruitment of producers and buyers in rural communities throughout the Pacific Northwest and provide the training and assistance necessary to ensure FoodHub, a project of Ecotrust, supports their business, procurement, and marketing goals.

FoodHub (<http://food-hub.org/>) is an on-line directory and marketplace designed to help wholesale food buyers and sellers find each other, connect, and do business. FoodHub will help agri-producers tap into the consumer demand for local food, help forge more direct connections between food buyers and producers, and shorten the supply chain between producers and wholesalers. FoodHub has 550 members signed up as of June 2010, and schools, bakeries, restaurants, processed product manufacturers, hospitals, grocers and wholesalers have already reported success in finding new regional suppliers through FoodHub. We were pleased to see that Fast Company's included EcoTrust' FoodHub on their top ten list of innovative food companies.

Rural Microentrepreneur Assistance Program (RMAP)

Newly created in the 2008 Farm Bill, RMAP is authorized under the CONACT. RMAP provides capital access, business-based training and technical assistance to the smallest of small businesses, employing less than 10 people. The RMAP purpose is to support the development and ongoing success of rural microentrepreneurs and microenterprises. Direct loans and grants are made to approved Microenterprise Development Organizations (MDO's). The 2008 Farm Bill provided mandatory funding of \$4 million per year for FY 2009-2011 and \$3 million for FY 2012. In addition, the 2008 Farm Bill authorized further discretionary appropriations of up to \$40 million per year for FY 2009-2012.

In FY 2010, RBS utilized the mandatory funding available for FY 2009-10 to provided 73 grants totaling \$6.6 million for technical assistance. Additionally, 63 rural microloans were made totaling \$24.9 million. In FY 2011 the \$ 4 million in mandatory funding provided by the 2008 Farm Bill is expected to support 160 businesses through \$10.7 million in grants and loans. To further support this important program, the President's FY 2012 Budget requests \$5.7 million in discretionary funds. This funding request is in addition to the \$3.0 million in mandatory funds that was provided by the 2008 Farm Bill.

Though new, this program is already showing results. The Valley Small Business Development Corporation located in Fresno, California, is preparing to close on their first RMAP loan. The recipient of the \$50,000 loan will be a custom farm operator in Hanford, California. Loan funds will be used to purchase farm equipment and expand this micro business.

Those eligible to apply are MDO's that are located in any area outside the boundaries of a city or town with a population of 50,000, or more, and the urbanized area contiguous and adjacent to such city or town.

Value-Added Producer Grant (VAPG) Program

Authorized under ARPA, the VAPG program provides grants for planning activities and for working capital for marketing value-added agricultural products and for farm-based renewable energy. The program encourages farmers and ranchers to add value to the commodities and products they produce allowing them to capture a greater percentage of the consumer's dollar. Eligible applicants are independent producers, farmer and rancher cooperatives, agricultural producer groups, and majority-controlled producer-based business ventures. The grants can be used for two purposes. The first is for planning activities such as conducting feasibility studies and developing business plans. Or, grants can be used to establish working capital accounts to pay salaries, utilities and other operating costs; to finance inventories; and to purchase office equipment, computers, and supplies. The value-added program is highly successful and has contributed to the creation of more jobs and business opportunities in rural America. The President's FY 2012 Budget requests funding VAPG at \$20.4 million. This level of funding allows RBS to maintain this important program to encourage producers to refine or enhance their products thereby increasing their value and their returns to producers. During the last funding cycle, awards were made to 45 States and Puerto Rico, the broadest distribution of awards in the history of this nationally competitive program. On June, 28, 2011, \$37 million in funds were announced through a Notice of Funding Availability which is scheduled to close on August 29, 2011. We estimate that this funding will support 350 businesses.

On February 23, 2011, a final rule was published in the Federal Register incorporating changes made by the 2008 Farm Bill and expanding the types of eligible applicants. The programmatic changes associated with the regulation provide additional opportunities to beginning and socially disadvantaged producers by helping owners of small and medium-sized family farms sell their products in local and regional markets and reserving 10 percent of the total funds available for projects to benefit beginning and socially disadvantaged farmers and mid-tier value chains.

Those eligible to apply are independent agricultural producers, producer groups, agriculture cooperatives, or majority-controlled producer-based business ventures. The revised regulatory language reserves 10 percent of funds for beginning and socially disadvantaged farmers and 10 percent for projects that support the use of a mid-tier value chain. The eligible area is within the United States.

Rural Cooperatives

Cooperatives are an important form of business model that is the cornerstone for business development in some rural communities. Cooperatives provide rural residents with new job opportunities, enhanced educational and healthcare services, and products that enable them to compete with their urban and suburban counterparts. Opportunities are created locally and revenues are maintained and re-circulated locally. The RBS cooperative services staff conducts basic research on the cooperative form of business, collect statistics and financial data pertaining to cooperatives, and provides technical assistance to farmer groups interested in starting a

cooperative or improve existing cooperatives. In addition, the cooperative services staff manage a number of RBS grant programs.

Rural Cooperative Development Grant (RCDG) Program

The RCDG program assists non-profit organizations and institutions of higher education to establish and operate cooperative development centers to start and establish cooperatives who improve the economic condition of rural areas. This program provides support to centers to develop new cooperatives and improve existing cooperatives. This program complements our national and State office technical assistance efforts by increasing outreach and developing feasibility studies and business plans for new cooperatives and assisting existing cooperatives in meeting the demands of today's ever-changing global economy. Those eligible to apply are non-profit corporations or institutions of higher learning. The eligible area is rural areas of 50,000 or less in the United States.

Small Socially-Disadvantaged Producer Grant (SSDPG) Program

The SSDPG program supports cooperatives or associations of cooperatives whose primary focus is to provide assistance to small, minority producers and whose governing board and/or membership is comprised of at least 75 percent small, socially disadvantaged producers. In 2010, awards were made to groups representing African American, Asian, Hispanic, Hmong, Native American, Native Hawaiian, Pacific Islander, and women producers.

For example, the Hillside Farmers Co-op of Northfield, Minnesota, assists Latino farmers by partnering with established farmers who, together, are committed to producing sustainable foods and building healthier communities. The cooperative pairs immigrant families with established farmers in the area who rent out their land for gardening and poultry production. The SSDPG grant awarded in 2010 is helping the cooperative conduct a feasibility study, develop a business plan, provide training, and help pay for other related expenses in developing a coordinated network of local businesses in the free-range poultry industry.

Those eligible to apply for the SSDPG are minority cooperatives or minority associations of cooperatives. Eligible areas include areas outside towns having a population greater than 50,000 and any adjacent urbanized area, or an urbanized area that is nevertheless rural in character.

Other RBS Programs

In addition to the programs described above, RBS has a number of other programs that are not authorized under Title VI of the 2008 Farm Bill but are essential programs in the RBS portfolio. These programs include: the Intermediary Relending Program, the Rural Business Enterprise Grant Program, the Rural Economic Development Loan and Grant program, the Biorefinery Assistance program, the Repowering Assistance Program, the Advanced Biofuel Payment Program, and the Rural Energy for America Program.

Backlog

Our RD programs are oversubscribed and in high demand. The B&I guaranteed loan program currently has 255 eligible pending applications/preapplications totaling \$983 million that would receive funding if it were available.

The RMAP program has currently received 78 eligible loan and grant applications totaling \$12.4 million in funding requests but was only provided \$4 million for FY2011, which will support 160 businesses through \$10.7 million in grants and loans.

The Rural Business Opportunity Grant program had 424 eligible applications totaling \$60 million apply in 2010. Only 27 awards could be funded totaling \$2.6 million.

The last time funding for the Value Added grant program was announced, there were 300 eligible applicants requesting \$32.7 million, but only 196 projects totaling \$22.7 million were awarded.

Uniqueness

All of the RBS programs are unique by virtue of their singular focus on rural America. Though some of the goals of these programs may be similar to SBA, the implementation, technical support, and outreach for the programs, eligibility requirements, loan limitations, and project expansion are tailored to support rural businesses and residents to expand their local economies. In General Accountability Office comparisons of RD programs to the programs of other Federal Agencies, they found that while similarities exist, RD is the only Federal Agency with a broad experience base for implementing rural programs.

Unfunded Programs

There were numerous programs included under Title VI of the 2008 Farm Bill which no longer receive funding or never received funding. These programs include: the Appropriate Technology Transfer for Rural Areas program, the Rural Business Investment Program, the Rural Collaborative Investment Program, Grants for the Expansion of Employment Opportunities for Individuals with Disabilities in Rural Areas, and the Agriculture Innovation Center Demonstration Program.

Councils

In addition to the RBS programs, we also work as liaisons along with the Rural Utilities Service and Rural Housing Service to support businesses in the following communities: Rural Economic Area partnership zones, Delta Regional Authority, and the Northern Great Plains Regional Authority.

Conclusion

RBS is committed to promoting economic prosperity in rural communities through our grant, loan, and loan guarantee programs. In partnership with other public and private sector businesses, RBS continues to improve the economic climate of rural areas through the creation or preservation of sustainable business opportunities and jobs and by helping to close the gap in opportunity for the under-served rural areas and populations. With your help, we will continue working to bridge the opportunity gap between rural and urban areas. In closing, I would like to thank the subcommittee for the opportunity to appear before you today and look forward to responding to your questions.